

STATEMENT OF  
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CONSUMER ADVOCATE FOR  
THE AMERICAN SOCIETY OF TRAVEL AGENTS, INC.

For the  
U.S. SENATE  
COMMERCE, SCIENCE AND TRANSPORTATION COMMITTEE

On the  
PROPOSED MERGER OF UNITED AIRLINES AND U.S. AIRWAYS

Submitted by:

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Statement of Ed Perkins

My name is Ed Perkins, and I currently serve as the Consumer Advocate for the American Society of Travel Agents (ASTA). I am also a nationally syndicated travel columnist and author of several travel buying guides. I was Founding Editor of Consumer Reports Travel Letter, from which I retired in 1998. In addressing you today, I am focused solely on the interests of American consumers, not on those of the travel industry or any of its components.

In my view, we can't view a proposed merger of United Airlines and US Airways in isolation. Instead, we must look at it in the broader context of concentration in the US airline marketplace. And in that context, I submit that the merger of United and US Airways--or any other merger between any of the six giant lines--would be highly inimical to the general public interest and the interests of travel consumers. I base that conclusion on two sets of issues: pricing and labor. Let's look at each.

You've already seen and heard lots of claims about the merger's possible impact on prices. Many of the industry's most celebrated economists have published learned treatises, and they generally seem to agree: fares would either go up, go down, or stay about the same. Not to disparage those economists--I used to be one, myself--but we all know that, depending on how they structure an issue and the assumptions they make, capable economists can come to diametrically opposite conclusions about almost any issue. Certainly this one. More to the point: If we get bogged down in the details of relative costs, overlapping routes, hub consolidations, differential wage rates, and such, we'll quickly lose sight of the basic principles that should really govern the decision.

Instead of looking at all those murky details, we should focus on how one or more mergers would impact the process by which the giant airlines raise and lower prices--specifically, how they would affect the pricing dynamic in a commodity market, which is the way today's airline market behaves.

Price increases happen when one giant airline decides an increase would be a good thing. Immediately, the other giant lines study the increase and determine if they would also like to see higher prices. One by one, those that agree announce their own hikes--sometimes following the originator, sometimes with adjustments. As in the old saying, one airline runs the fare hike up the flagpole, and the others start saluting it.

What's critically important here is that it now only takes one of the six giant lines to reverse the hike. In effect, each of those six lines has veto power over price hikes in the entire national airline marketplace. If any one of them doesn't salute, the hike is quickly run back down the flagpole and returned to the closet.

Clearly, the fewer the number of giant lines, the less chance that any given price hike will be vetoed. And, in a worst-case scenario, a concentration down to only three super-giants would make it far easier for any one of them to make price hikes stick.

The fare-cutting process works the same way. It takes only one of the six giants to kick off a nationwide fare war. And, as you probably know, that's when a lot of ordinary consumers buy their tickets. When it comes to starting a fare war, six chances for a price cut are far better than five, four, or three.

Labor issues, too, militate against further concentration. With the largest US line owning no more than about a 17% share of the domestic market, the nation's economy can survive the complete shutdown of any one giant airline. But only barely: The last American shutdown showed us how much disruption resulted from a loss of just 11% of the domestic lift, as measured in passengers.

If you liked that strike, you'd love a shutdown of a merged United-US Airways system. That would represent just about twice the American share. Even worse, of course, would be a merged American and Delta, with a staggering 28% share of total passengers.

We made it through the American stoppage as well as we did, at least in part, because other five giant airlines--plus the smaller players--managed to absorb most of American's travelers, over an extended period. But could fewer other airlines absorb twice as many displaced passengers without far more serious disruption? Or, in the worst case, could two remaining super-giant lines absorb 28% of the passengers? I don't think so. Instead, the effects of a super-giant strike would be devastating to the economy, and certainly to the travel plans of millions of consumers. As with pricing, for labor reasons alone, we just can't risk more market concentration.

One more point: let's not forget the largely negative effects of an earlier wave of mergers and acquisitions. How such user-friendly lines as Air California, New York Air, PSA, Piedmont, and Republic disappeared in the black hole of mergers? Don't take my word for it; ask someone from Charlotte or Detroit.

"It needs more study" is the classic way of evading a tough-minded decision. Or, in Carleton Green's construct, it's a way of handling a tough question by "dissolving it in a weak solution." I would submit that we don't need any more study on the merger question. We can't afford a weak solution. This is one of those cases that should be decided by basic principles and common sense, not statistical models.

And those basic principles come in with a clear message: No more concentration by merger. No more buying out potential competitors rather than competing with them. We should take merger and acquisition among any of the six giant lines completely off the table, starting now. If any one of those lines is desperate to increase its market share anywhere in the US, let that line do it the old-fashioned way: earn it, with better service and lower fares.

Thanks for your attention.